



Nkandla Municipality  
Annual financial statements  
for the year ended 30 June 2010

# Nkandla Municipality

## Index

---

Index	Page
Approval of Annual Financial Statements	2
Statement of Financial Position as at 30 June 2010	3
Statement of Financial Performance for the year ending 30 June 2010	4
Statement of Changes in Net Assets as at 30 June 2010	5
Cash Flow Statement as at 30 June 2010	6
Summary of significant Accounting Policies for the year ended 30 June 2010	7 - 20
Notes to the Annual Financial Statements for the year ended 30 June 2010	21 - 41

### Abbreviations

COLD	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

**Nkandla Municipality**  
**Approval of Annual Financial Statements**

---

I am responsible for the preparation of these annual financial statements, which are set out on pages 3 to 40, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 20 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Acting Municipal Manager: Mr NM Mynandu

14 December 2010  
Date

03/01/2011

**Nkandla Municipality**  
**Statement of Financial Position as at 30 June 2010**

	Note	2010 R	2009 R
<b>Assets</b>			
<b>Current Assets</b>			
Other receivables	7	718,000	718,000
VAT receivable	8	469,221	385,900
Consumer debtors	9	1,207,428	163,194
Financial assets - Investments	6	18,382,032	1,170,101
Cash and cash equivalents	10	7,192,623	416,777
		<b>27,969,304</b>	<b>2,853,972</b>
<b>Non-Current Assets</b>			
Investment property	2	38,000	18,000
Property, plant and equipment	3	153,856,524	149,934,755
Intangible assets	4	46,024	6,162
		<b>153,940,548</b>	<b>149,958,917</b>
<b>Total Assets</b>		<b>181,909,852</b>	<b>152,812,889</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	13	4,079,621	1,499,651
Unspent conditional grants and receipts	11	22,590,312	3,736,846
Provisions	12	897,770	764,076
		<b>27,567,703</b>	<b>6,000,573</b>
<b>Non-Current Liabilities</b>			
Provisions	12	3,500,000	3,181,818
<b>Total Liabilities</b>		<b>31,067,703</b>	<b>9,182,391</b>
<b>Net Assets</b>		<b>150,842,149</b>	<b>143,630,498</b>
<b>Net Assets</b>			
Accumulated surplus/(deficit)		150,842,149	143,630,498

## Nkandla Municipality

### Statement of Financial Performance for the year ending 30 June 2010

	Note	2010 R	2009 R
<b>Revenue</b>			
Property rates	15	1,241,069	121,172
Service charges	16	357,800	275,108
Rental of facilities and equipment	26	273,805	215,328
Government grants & subsidies	17	36,096,886	33,735,926
Sundry income	18	141,887	134,634
Interest received - investment	22	538,819	455,013
<b>Total Revenue</b>		<b>38,650,266</b>	<b>34,937,181</b>
<b>Expenditure</b>			
Employee related costs	19	(11,210,702)	(10,431,176)
Remuneration of councillors	20	(4,437,659)	(4,123,629)
Operating lease expense		(499,260)	(765,799)
Depreciation and amortisation	23	(2,260,800)	(2,129,879)
Finance costs	24	(318,182)	(289,256)
Increase in provision for bad debts	21	(67,151)	(475,968)
Repairs and maintenance		(836,809)	(126,505)
General expenses	27	(11,808,052)	(10,095,980)
<b>Total Expenditure</b>		<b>(31,438,615)</b>	<b>(28,438,192)</b>
<b>Surplus/(deficit) for the period</b>		<b>7,211,651</b>	<b>6,498,989</b>

## Nkandla Municipality

### Statement of Changes in Net Assets as at 30 June 2010

	Accumulated (deficit) / surplus R	Total: Net assets R
<b>Balance at 01 July 2008</b>	<b>38,340,975</b>	<b>38,340,975</b>
Changes in net assets		
Prior year error	(2,450,060)	(2,450,060)
Net income (expenses) recognised directly in net assets	(2,450,060)	(2,450,060)
Surplus for the year	9,272,158	9,272,158
Total recognised income and expenses for the year	6,822,098	6,822,098
Total changes	6,822,098	6,822,098
Opening balance as previously reported	45,163,073	45,163,073
Adjustments		
Restatement of corresponding figures (refer note 36)	98,467,425	98,467,425
<b>Balance at 01 July 2009 as restated</b>	<b>143,630,498</b>	<b>143,630,498</b>
Changes in net assets		
Surplus for the year	7,211,651	7,211,651
Total changes	7,211,651	7,211,651
<b>Balance at 30 June 2010</b>	<b>150,842,149</b>	<b>150,842,149</b>

# Nkandla Municipality

## Cash Flow Statement as at 30 June 2010

	Note	2010 R	2009 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		39,013,854	31,930,929
Cash paid to suppliers and employees		(21,797,065)	(11,825,044)
Cash (used in) / generated from operations	28	17,216,789	20,105,885
Interest income		538,819	455,013
Finance costs		(318,182)	(289,256)
<b>Net cash flows from operating activities</b>		<b>17,437,426</b>	<b>20,271,642</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	3	(12,376,937)	(16,192,805)
Sale of property, plant and equipment	3	120,000	-
Purchase of other intangible assets	4	(46,178)	(8,984)
Purchase of financial assets - investments		(17,211,931)	-
Sale of financial assets - investments		-	3,570,775
Increase/(Decrease) in government grants		18,853,466	(5,276,257)
<b>Net cash flows from investing activities</b>		<b>(10,661,580)</b>	<b>(17,907,271)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>6,775,846</b>	<b>2,364,371</b>
Cash at the beginning of the year		416,777	(1,947,594)
<b>Net cash and cash equivalents at the end of period</b>	10	<b>7,192,623</b>	<b>416,777</b>

## **Nkandla Municipality**

### **Summary of significant Accounting Policies for the year ended 30 June 2010**

---

#### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

The municipality adopted GRAP in the prior year (June 30, 2009).

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

The municipality adopted GRAP in the prior year (June 30, 2009) and took advantage of the transitional provisions of Directive 4 which are available to medium capacity municipalities. These provisions are available to the Municipality until June 30, 2011. The application of these transitional provisions is detailed in each policy to which the Directive applies.

#### **Presentation Currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### **Going concern assumption**

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months. It must however, be noted that the municipality is largely reliant on equitable share and other grants received from the government as its own income is not currently sufficient to sustain it in the foreseeable future.

#### **Comparative information**

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

#### **1.1 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### **Trade receivables and loans and receivables**

The municipality assesses its trade receivables and loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, default and delinquency in payments are considered indicators that the trade receivables are impaired.

##### **Allowance for doubtful debts**



## Nkandla Municipality

### Summary of significant Accounting Policies for the year ended 30 June 2010

---

#### 1.1 Significant judgements and sources of estimation uncertainty (continued)

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

#### Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

#### Effective interest rate

The municipality used the incremental borrowing rate to discount future cash flows.

#### Directive 4

As allowed by the transitional provisions included in Directive 4, the following asset classes have not been measured in accordance with the relevant GRAP for the year ended June 30, 2010:

Investment property	(GRAP 16)
Property, Plant and Equipment	(GRAP 17)
Intangible assets	(GRAP 102)

Management has estimated provisional amounts for each of these asset classes which are included in the statement of financial position. These amounts are subject to change once the measurement process has been completed, which is expected to occur by June 30, 2011.

#### Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment reporting  
GRAP 21 Impairment of non-cash generating assets  
GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)  
GRAP 24 Presentation of Budget information  
GRAP 25 Employee Benefits  
GRAP 26 Impairment of Cash-generating Assets  
GRAP 103 Heritage Assets  
GRAP 104 Financial Instruments

The municipality has not applied the following accounting statements and interpretations that have been issued but are not yet effective. These will be applied by the municipality when they become effective:

IFRS 2 Amendments to IFRS 2 Share-based payments- Group cash settled share-based payment arrangements.  
This amendment is required for years commencing on or after 1 January 2010 but is not expected to be relevant to the activities of the municipality.

IFRS 9 Financial Instruments  
This new standard is required for years commencing on or after 1 January 2013. The impact of this standard is currently being determined.

IAS 24 Related party disclosures  
This amended standard is required for years commencing on or after 1 January 2011 but is not expected to have a material impact on the municipality.

IAS 32 Amendments to IAS 32 Financial Instruments : Presentation – Classification of rights issues

## Nkandla Municipality

### Summary of significant Accounting Policies for the year ended 30 June 2010

#### **1.1 Significant judgements and sources of estimation uncertainty (continued)**

This amendment is required for years commencing on or after 1 February 2010 but is not relevant to the activities of the municipality.

IFRIC 14 Amendments for prepayments of a minimum funding requirement

This amended interpretation is required for years commencing on or after 1 January 2011 but is not expected to be relevant to the activities of the municipality.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation is required for years commencing on or after 1 July 2010 but is not expected to be relevant to the activities of the municipality.

Improvements to IFRS (April 2009)

These annual improvements are required mostly for years commencing on or after 1 January 2010 and are not expected to be relevant to the activities of the municipality.

Improvements to IFRS (May 2010)

These annual improvements are required mostly for years commencing on or after 1 January 2011 and are not expected to be relevant to the activities of the municipality.

## Nkandla Municipality

### Summary of significant Accounting Policies for the year ended 30 June 2010

---

#### 1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Subsequent measurement - Cost model

Investment property is carried at cost less depreciation less any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The useful life of the property, is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to medium capacity municipalities for the year ended June 30, 2010.

Investment property has therefore not been measured in accordance with GRAP 16 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 16 measurement process is completed. It is anticipated that this process will be completed by June 30, 2011.

#### 1.3 Property, plant and equipment

##### Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

## Nkandla Municipality

### Summary of significant Accounting Policies for the year ended 30 June 2010

---

#### 1.3 Property, plant and equipment (continued)

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Major spare parts and servicing equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and servicing equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

#### Subsequent measurement - Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

#### Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Property & Permanent Works	30 years
Plant & Equipment	5-6 years
Furniture and fixtures	6 years
Vehicles	5 years
Equipment	5-6 years
IT equipment	3 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate in the Statement of Financial Performance.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

#### Derecognition

## Nkandla Municipality

### Summary of significant Accounting Policies for the year ended 30 June 2010

---

#### 1.3 Property, plant and equipment (continued)

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of Intangible assets is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of intangible assets is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

#### 1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to the criteria below, changes in the liability are added to, or deducted from, the cost of the related asset in the current period
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

#### 1.5 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs.

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised in the Statement of Financial Position when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity;
- and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

## Nkandla Municipality

### Summary of significant Accounting Policies for the year ended 30 June 2010

---

#### 1.5 Intangible assets (continued)

##### Subsequent measurement - Cost Model

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

##### Amortisation and impairment

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Licenses	1 year
Computer software	3 years

##### Derecognition

Intangible assets are derecognised:  
on disposal; or  
when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit in the Statement of Financial Performance when the asset is derecognised.

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to medium capacity municipalities for the year ended June 30, 2010.

Intangible assets have therefore not been measured in accordance with GRAP 102 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 102 measurement process is completed. It is anticipated that this process will be completed by June 30, 2011.

#### 1.6 Financial instruments

##### Classification

The municipality classifies financial assets and financial liabilities into the following categories:  
Loans and receivables  
Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

##### Initial recognition and measurement

## **Nkandla Municipality**

### **Summary of significant Accounting Policies for the year ended 30 June 2010**

---

#### **1.6 Financial instruments (continued)**

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

Transaction costs are included in the initial measurement of the instrument.

#### **Subsequent measurement**

Loans and receivables and consumer debtors are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

#### **Trade and other receivables**

Trade and other receivables are classified as loans and receivables.

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

#### **Cash and cash equivalents and other financial assets**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially recorded at fair value and subsequently recorded at amortised cost as a loan receivable.

#### **Bank overdraft, borrowings and trade and other payables**

Bank overdrafts, borrowings and trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### **Gains and losses**

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

## **Nkandla Municipality**

### **Summary of significant Accounting Policies for the year ended 30 June 2010**

---

#### **1.6 Financial instruments (continued)**

##### **Derecognition**

##### **Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

##### **Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

##### **Impairment of financial assets**

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

#### **1.7 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

##### **Finance leases – lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance



## **Nkandla Municipality**

### **Summary of significant Accounting Policies for the year ended 30 June 2010**

---

#### **1.7 Leases (continued)**

charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

##### **Operating leases - lessor**

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in the statement of financial performance.

##### **Operating leases – lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an a prepayment or an accrual, as applicable.

Any contingent rents are expensed in the period they are incurred.

#### **1.8 Impairment of assets**

The municipality assesses at each statement of financial position date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amounts of the units.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in the prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in the prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

Impairment of assets has not been performed as the transitional provisions in Directive 4 relating to the exemption of measurement of all assets have been applied.

#### **1.9 Employee benefits**

##### **Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

## Nkandla Municipality

### Summary of significant Accounting Policies for the year ended 30 June 2010

#### 1.9 Employee benefits (continued)

##### Retirement benefits

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are treated as defined contribution plans by the municipality as allowed by IAS 19 Employee benefits.

#### 1.10 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken;
- when the plan will be implemented; and

The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable. Contingencies are disclosed in note 30.

## **Nkandla Municipality**

### **Summary of significant Accounting Policies for the year ended 30 June 2010**

---

#### **1.11 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

##### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates and value added tax.

##### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

##### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

##### **Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

## **Nkandla Municipality**

### **Summary of significant Accounting Policies for the year ended 30 June 2010**

---

#### **1.12 Revenue from non-exchange transactions**

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

##### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

##### **Rates, including collection charges and penalties interest**

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

##### **Fines**

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

##### **Government grants**

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

##### **Other grants and donations**

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

#### **1.13 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

#### **1.14 Borrowing costs**

Borrowing costs that are attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

## **Nkandla Municipality**

### **Summary of significant Accounting Policies for the year ended 30 June 2010**

---

#### **1.15 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote;
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### **1.16 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### **1.17 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### **1.18 Use of Estimates**

The preparation of annual financial statements in conformity with the Standards of Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

#### **1.19 Offsetting**

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

# Nkandla Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R				
<b>2. Investment property</b>						
	2010	2009				
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	38,000	-	38,000	18,000	-	18,000

### Reconciliation of investment property - 2010

	Opening Balance	Transfers	Total
Investment property	18,000	20,000	38,000

### Reconciliation of investment property - 2009

	Opening Balance	Transfers	Total
Investment property	-	18,000	18,000

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to medium capacity municipalities for the year ended June 30, 2010.

Investment property have therefore not been measured in accordance with GRAP 16 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 16 measurement process is completed. It is anticipated that this process will be completed by June 30, 2011.

## 3. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	104,005,940	-	104,005,940	104,025,940	-	104,025,940
Buildings	4,329,275	(816,959)	3,512,316	4,329,275	(672,649)	3,656,626
Plant and machinery	1,675,270	(961,434)	713,836	1,675,270	(828,649)	846,621
Furniture and fixtures	1,332,259	(889,731)	442,528	1,331,424	(721,969)	609,455
Motor vehicles	1,319,033	(966,683)	352,350	1,242,101	(825,164)	416,937
Office equipment	115,358	(76,139)	39,219	111,485	(61,105)	50,380
IT equipment	1,768,217	(1,286,075)	482,142	1,596,296	(872,704)	723,592
Infrastructure	17,791,832	(1,394,548)	16,397,284	12,825,736	(920,266)	11,905,470
Community	18,439,782	(2,718,058)	15,721,724	17,460,132	(2,133,460)	15,326,672
Capital work in progress	9,527,823	-	9,527,823	9,661,285	-	9,661,285
Park facilities	130,406	(36)	130,370	-	-	-
Landfill site	2,892,562	(361,570)	2,530,992	2,892,562	(180,785)	2,711,777
<b>Total</b>	<b>163,327,757</b>	<b>(9,471,233)</b>	<b>153,856,524</b>	<b>157,151,506</b>	<b>(7,216,751)</b>	<b>149,934,755</b>

### Reconciliation of property, plant and equipment - 2010

	Opening Balance	Additions	Disposals	Transfers	Depreciation	Total
Buildings	3,656,626	-	-	-	(144,310)	3,512,316
Land	104,025,940	-	-	(20,000)	-	104,005,940
Other assets	2,646,985	548,967	(165,000)	-	(870,507)	2,160,445
Infrastructure	11,905,470	4,966,097	-	-	(474,283)	16,397,284
Community	15,326,672	979,651	-	-	(584,599)	15,721,724
Capital work in progress	9,661,285	5,882,222	-	(6,015,684)	-	9,527,823
Landfill site	2,711,777	-	-	-	(180,785)	2,530,992

# Nkandla Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2010

				2010 R	2009 R
<b>3. Property, plant and equipment (continued)</b>					
	149,934,755	12,376,937	(165,000)	(6,035,684)	(2,254,484)
					153,856,524

### Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Transfers	Depreciation	Total
Buildings	3,800,935	-	-	(144,309)	3,656,626
Land	104,043,940	-	(18,000)	-	104,025,940
Other assets	2,126,216	1,431,237	-	(910,468)	2,646,985
Infrastructure	10,888,853	1,431,380	-	(414,763)	11,905,470
Community	12,372,639	3,430,765	-	(476,732)	15,326,672
Capital work in progress	4,701,388	9,899,423	(4,939,526)	-	9,661,285
Landfill site	2,892,562	-	-	(180,785)	2,711,777
	<b>140,826,533</b>	<b>16,192,805</b>	<b>(4,957,526)</b>	<b>(2,127,057)</b>	<b>149,934,755</b>

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to medium capacity municipalities for the year ended June 30, 2010.

Property, plant and equipment have therefore not been measured in accordance with GRAP 17 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 17 measurement process is completed. It is anticipated that this process will be completed by June 30, 2011.

### 4. Intangible assets

	2010			2009		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	55,162	(9,138)	46,024	8,984	(2,822)	6,162

### Reconciliation of intangible assets - 2010

	Opening Balance	Additions	Amortisation	Total
Computer software	6,162	46,178	(6,316)	46,024

### Reconciliation of intangible assets - 2009

	Opening Balance	Additions	Amortisation	Total
Computer software	-	8,984	(2,822)	6,162

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to medium capacity municipalities for the year ended June 30, 2010.

Intangible assets have therefore not been measured in accordance with GRAP 102 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 102 measurement process is completed. It is anticipated that this process will be completed by June 30, 2011.

### 5. Retirement benefits

All municipal employees belong to The Natal Joint Municipal Pension Fund (Retirement) which are administered by the Province.

All municipal councillors belong to The Municipal Councillors Pension Fund.

The valuator carries out a statutory valuation on a triennial basis and an interim valuation on an annual basis (the 2006 interim has been completed).

## Nkandla Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
--	-----------	-----------

#### 5. Retirement benefits (continued)

##### Retirement Fund

The salient features of the statutory valuation of the fund at 31 March 2009 are:

The actuarial value of total assets of the fund was less than the actuarial value of the liabilities for the service of members to that date and for pensioners by:

-80,100,000                      -80,100,000

##### Made up as follows:

##### For service to 31 March 2009

for pensioners - funding level 119.1% (2006 : funding level 116.2%) - surplus	134,100,000	134,100,000
for members - funding level 79.5% (2006 : funding level 73,0%) - deficit	-214,200,000	-214,200,000
The fund was thus funded	79.50%	79.50%

The fund did not hold an Investment Reserve.

With effect from 01 July 2000, local authorities commenced paying a surcharge equal to 2% of pensionable salaries. It was subsequently increased each year and is currently

17.00%                      17.00%  
1.65%                      1.65%

and members pay  
Based on the valuation assumptions applied in 2000 the shortfall was expected to be fully funded by 2011. During the previous interim valuation the actuary found that the mortality assumption for pensioners was not in line with actual experience and so the assumption was changed. Accordingly, the current surcharge is required to continue for a further two years after 2010 to be fully funded.

#### Conclusion

The actuary is satisfied that the self-insurance arrangement is appropriate for the Fund, the asset composition of the Fund is appropriate to the nature of the liabilities, the contributions being paid to the Fund, including the surcharges are sufficient to meet the shortfall by 30 June 2010 and based on the revised assumptions, which allow for the improving pensioner mortality, an extension of the surcharge for a further two years is necessary

##### Municipal Councillors' Pension Fund

The audited financial statements for the financial years ended 30 June 2009 and 2010 have not been distributed as yet, as these audits have not been completed. Accordingly, reliable financial formation is not available to be presented.

#### 6. Financial assets - Investments

##### Current portion

ABSA Call investment account	5,056,924	394,999
ABSA MIG Call account	7,604,449	738,156
ABSA Conditional Call account	5,720,659	36,946
	<b>18,382,032</b>	<b>1,170,101</b>

#### 7. Other receivables

Sundry debtors	718,000	718,000
----------------	---------	---------

#### 8. VAT receivable

VAT receivable	469,221	385,900
----------------	---------	---------

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.



# Nkandla Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>9. Consumer debtors</b>		
<b>Gross balances</b>		
Rates and refuse	5,997,554	4,886,169
<b>Less: Provision for bad debts</b>		
Rates and refuse	(4,790,126)	(4,722,975)
<b>Net balance</b>		
Rates and refuse	1,207,428	163,194
<b>Rates and refuse</b>		
Current (0 -30 days)	144,251	37,126
31 - 60 days	133,853	37,094
61 - 90 days	133,622	684
91 - 120 days	795,702	88,290
	<b>1,207,428</b>	<b>163,194</b>
<b>Reconciliation of bad debt provision</b>		
Balance at beginning of the year	4,722,975	4,247,007
Provision raised during the year	67,151	475,968
	<b>4,790,126</b>	<b>4,722,975</b>

### Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

### Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2010, R1 207 428 (2009: R 163 194) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

Less than 1 month past due	144,251	37,126
1 month past due	133,853	37,094
2 months past due	133,622	684
3 months past due	795,702	88,290

## Nkandla Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
--	-----------	-----------

#### 9. Consumer debtors (continued)

##### Consumer debtors impaired

As of 30 June 2010, consumer debtors of R 4,790,126 (2009: R 4,722,975) were impaired and provided for.

The amount of the provision was R4,790,126 as of 30 June 2010 (2009: R 4,722,975).

The ageing of these loans is as follows:

Over 2 months	-	36,333
Over 3 months	4,790,126	4,686,641

The fair value of trade and other receivables approximates their carrying amounts.

#### 10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,853	-
Bank balances	7,189,770	416,777
	<b>7,192,623</b>	<b>416,777</b>

#### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Absa Bank Limited - La Lucia Ridge Branch - Public Sector Current account - Account number 40 5385 8355	7,189,770	416,775	7,189,770	416,695
Absa Bank Limited - La Lucia Ridge Branch - Disaster Management	-	82	-	82
<b>Total</b>	<b>7,189,770</b>	<b>416,857</b>	<b>7,189,770</b>	<b>416,777</b>

# Nkandla Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>11. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
Municipal infrastructure grant (MIG)	10,199,090	2,830,582
Municipal systems improvement grant (MSIG)	332,212	-
Municipal assistance programme grant (MAP)	-	-
Feasibility study grant	-	-
Finance management grant (FMG)	526,470	15,822
Spatial planning grant	-	-
Zulu dance grant	-	-
Infrastructure investment grant	-	-
GIS Capacity support grant	-	-
Sports and recreation	137,051	444,443
E-learning grant	167,230	376,755
Town planning scheme	-	-
Valuation roll grant	-	69,244
Small town rehabilitation grant	11,198,456	-
Cyber cadet grant	29,803	-
<b>Total unspent conditional grants and receipts</b>	<b>22,590,312</b>	<b>3,736,846</b>

### Equitable share

This grant is used for the operations of the municipality.

### MIG Grant

This grant is used to address backlogs in municipal infrastructure required for the provision of basic services. The unspent portion will be used to complete the same projects.

### MAP Grant

The Management Assistant Programme is the funding from Local Government for management to assist the municipality to provide better service to the community. It is usually used to buy and maintain computers for the municipality.

### MSIG Grant

This grant is used for infrastructure and for capacity building and restructuring. The capacity building and restructuring grants were set up to assist municipality in developing their planning, budgeting, financial management and technical skills. Furthermore, the municipality used this grant for payments regarding integrated development planning, performance management, preparation of annual financial statements, effective administration, efficient service delivery mechanisms, revenue enhancement as well as powers and functions.

### FMG Grant

The main objective of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist building strong financial management skills. The unspent portion will be used to complete the same projects.

### GIS Capacity support grant

This grant is used for the purposes of building the Municipality's GIS capacity, by preparation of a business plan for the implementation of its GIS, training of staff, acquisition of hardware/software to support its GIS, etc. The unspent portion will be used to complete the same projects.

### Valuation Roll grant

The main objective of this grant was to facilitate the implementation of the Property Rates Act, 2004 and to assist the municipality in preparing valuation rolls whereby a policy framework developed by the municipality is used to ensure that property would be valued in accordance with generally recognised valuation practices, methods and standards.

### Feasibility study grant

This grant was funded from the Department of Local Government and Traditional Affairs in order to assist the municipality to develop terms of reference and conduct a feasibility study for the skill development centre.

### Sports and recreation grant

The sports and recreation grant was provided to the municipality by the KZN Department of Sports. This grant was used by the municipality for the construction of a sportsfield.

# Nkandla Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>11. Unspent conditional grants and receipts (continued)</b>		
<b>Spatial planning grant</b> The objective of this grant is to assist the municipality in influencing the distribution of people and activities in various space scales including land use planning and urban planning.		
<b>E-learning grant</b> The objective of this grant is to undertake generic training of Ward Committees and school governing bodies.		
<b>Infrastructure investment grant</b> The objective of this grant is to provide the municipality with funds to prepare an energy sector plan in order to provide its community with sustainable services.		
<b>Zulu dance grant</b> The objective of this grant is to promote cultural activities.		
<b>Cyber cadet grant</b> The objective of this grant is to promote the education of the youth in terms of computer literacy.		
<b>Small town rehabilitation grant</b> The objective of this grant is to rehabilitate under developed townships and communities.		
<b>Municipal infrastructure grant (MIG)</b>		
Balance unspent at the beginning of the year	2,830,582	2,825,863
Current year receipts	12,873,000	9,289,610
Conditions met - Transferred to revenue	(5,504,492)	(9,284,891)
	<b>10,199,090</b>	<b>2,830,582</b>
<b>Municipal systems improvement grant (MSIG)</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	1,215,000	735,000
Conditions met - Transferred to revenue	(882,788)	(735,000)
	<b>332,212</b>	<b>-</b>
<b>Municipal assistance programme grant</b>		
Balance unspent at the beginning of the year	-	28,350
Current year receipts	-	-
Conditions met - Transferred to revenue	-	(28,350)
	<b>-</b>	<b>-</b>
<b>Feasibility study grant</b>		
Balance unspent at the beginning of the year	-	120,000
Current year receipts	-	-
Conditions met - Transferred to revenue	-	(120,000)
	<b>-</b>	<b>-</b>
<b>Finance management grant (FMG)</b>		
Balance unspent at the beginning of the year	15,822	-
Current year receipts	1,500,000	500,000
Conditions met - Transferred to revenue	(989,352)	(484,178)
	<b>526,470</b>	<b>15,822</b>
<b>Spatial planning grant</b>		
Balance unspent at the beginning of the year	-	115,845
Current year receipts	-	-
Conditions met - Transferred to revenue	-	(115,845)

# Nkandla Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>11. Unspent conditional grants and receipts (continued)</b>		
	-	-
<b>Zulu dance grant</b>		
Balance unspent at the beginning of the year	-	3,000
Current year receipts	-	-
Conditions met - Transferred to revenue	-	(3,000)
	-	-
<b>Infrastructure investment grant</b>		
Balance unspent at the beginning of the year	-	111,494
Current year receipts	-	-
Conditions met - Transferred to revenue	-	(111,494)
	-	-
<b>GIS Capacity support grant</b>		
Balance unspent at the beginning of the year	-	46,353
Current year receipts	-	-
Conditions met - Transferred to revenue	-	(46,353)
	-	-
<b>Sports and Recreation grant</b>		
Balance unspent at the beginning of the year	444,443	325,000
Current year receipts	-	791,700
Conditions met - Transferred to revenue	(307,392)	(672,257)
	<b>137,051</b>	<b>444,443</b>
<b>E-learning grant</b>		
Balance unspent at the beginning of the year	376,755	1,000,000
Current year receipts	-	-
Conditions met - Transferred to revenue	(209,525)	(623,245)
	<b>167,230</b>	<b>376,755</b>
<b>Town planning scheme grant</b>		
Balance unspent at the beginning of the year	-	46,491
Current year receipts	-	-
Conditions met - Transferred to revenue	-	(46,491)
	-	-
<b>Valuation roll grant</b>		
Balance unspent at the beginning of the year	-	109,950
Current year receipts	-	-
Conditions met - Transferred to revenue	-	(40,706)
	-	<b>69,244</b>
<b>Small town rehabilitation grant</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	11,300,000	-
Conditions met - Transferred to revenue	(101,544)	-
	<b>11,198,456</b>	-
<b>Cyber-cadet grant</b>		
Balance unspent at the beginning of the year	-	-

## Nkandla Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>11. Unspent conditional grants and receipts (continued)</b>		
Current year receipts	97,572	-
Conditions met - Transferred to revenue	(67,769)	-
	<b>29,803</b>	<b>-</b>

#### 12. Provisions

##### Reconciliation of non-current provisions - 2010

	Opening Balance	Additions	Total
Provision for landfill site	3,181,818	318,182	3,500,000

##### Reconciliation of non-current provisions - 2009

	Opening Balance	Additions	Total
Provision for landfill site	2,892,562	289,256	3,181,818

##### Reconciliation of current provision - 2010

	Opening balance	Additions	Reversed during the year	Total
Leave pay provision	764,076	133,694	-	897,770

##### Reconciliation of current provision - 2009

	Opening balance	Additions	Reversed during the year	Total
Leave pay provision	635,964	404,037	(275,925)	764,076

Non-current liabilities	3,500,000	3,181,818
Current liabilities	897,770	764,076
	<b>4,397,770</b>	<b>3,945,894</b>

#### Landfill site

The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life.

#### Leave pay

The leave pay provision is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee.

#### 13. Trade and other payables

Trade payables	1,310,866	166,818
Other payables	1,839,679	1,322,033
Other deposits	32,418	10,800
Accruals	896,658	-
	<b>4,079,621</b>	<b>1,499,651</b>

The fair value of trade and other payables approximates their carrying amounts.

#### 14. Revenue

Rendering of services	1,598,869	396,280
Rental of facilities & equipment	273,805	215,328
Government grants (refer note 17)	36,096,886	33,735,926

## Nkandla Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>14. Revenue (continued)</b>		
	<b>37,969,560</b>	<b>34,347,534</b>
<b>The amount included in revenue arising from rendering of services are as follows:</b>		
Property rates (refer note 15)	1,241,069	121,172
Service charges (refer note 16)	357,800	275,108
	<b>1,598,869</b>	<b>396,280</b>

## Nkandla Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
--	-----------	-----------

#### 15. Property Rates

##### Rates revenue

##### Property valuations

Valuations on land and buildings are performed every four years. The last general valuation came into effect on November 01, 2008.

The following general rates are applied:

- Business	0.0207c in the Rand
- Residential	0.0196c in the Rand
- State Owned	0.0207c in the Rand
- Vacant Land	0.0219c in the Rand
- Place of Worship	0.0115c in the Rand

Rebates of the following rates are applied:

100% of market value of Ingonyama trust land

100% of market value of residential properties less than R17000

100% of market value of worshipping properties.

First R50,000 on any residential property

25% of market value less exemption for phasing in discount

4% of market value less exemption for all agricultural properties.

4% of market value less exemption for owners who are illegible pensioners

4% of market value less exemption for indigent owners

42% of market values less exemption and rebates from all categories is reserved for relief during disaster.

Rates are levied on a monthly basis.

Rates are levied on the following properties as per the valuation roll.

##### Property valuations

Agriculture	3,291,000	3,291,000
Business	19,021,000	19,021,000
Residential	14,924,500	14,924,500
State owned Property	55,684,000	55,684,000
State owned Land	207,768,100	207,768,100
Vacant Land	748,000	748,000
Place of Worship	2,898,000	2,898,000
	<b>304,334,600</b>	<b>304,334,600</b>

#### 16. Service charges

Refuse removal	357,800	275,108
----------------	---------	---------



## Nkandla Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>17. Government grants and subsidies</b>		
Equitable Share	27,995,163	21,344,895
Finance management grant (FMG)	989,351	484,178
Municipal assistance program grant (MAP)	-	28,350
Investment infrastructure grant	-	111,494
Spatial planning grant	-	-
GIS Capacity support grant	-	46,353
Municipal systems improvement grant (MSIG)	882,788	735,000
Municipal infrastructure grant (MIG)	5,504,492	9,284,891
LG SETA grant	38,862	79,221
Valuation roll grant	-	40,706
Zulu dance grant	-	3,000
Sports and recreation grant	307,392	672,257
Town planning grant	-	46,491
E-learning grant	209,525	623,245
Feasibility study grant	-	120,000
Spatial planning grant	-	115,845
Cyber cadet grant	67,769	-
Small town rehabilitation grant	101,544	-
	<b>36,096,886</b>	<b>33,735,926</b>
<b>18. Other income</b>		
Sundry income	141,887	134,634

# Nkandla Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>19. Employee related costs</b>		
Basic	8,012,716	6,930,667
Bonus	533,047	567,029
Medical aid - company contributions	356,661	350,983
UIF	57,996	52,457
SDL	116,279	72,063
Other payroll levies	2,770	2,568
Leave pay provision charge	133,693	128,112
Post-employment benefits	761,724	701,450
Travel, motor car, accommodation, subsistence and other allowances	1,059,134	1,319,476
Overtime payments	107,005	39,965
Housing benefits and allowances	69,677	266,406
	<b>11,210,702</b>	<b>10,431,176</b>
<b>Remuneration of municipal manager</b>		
Annual remuneration	548,289	403,833
Travel and other allowances	112,547	206,400
Bonus	-	-
Retirement annuity	6,000	-
Backpay	6,733	-
	<b>673,569</b>	<b>610,233</b>
<b>Remuneration of chief finance officer</b>		
Annual remuneration	458,810	303,874
Travel and other allowances	108,000	213,383
Bonus	-	-
Backpay	5,487	-
	<b>572,297</b>	<b>517,257</b>
<b>Remuneration of Director Corporate Services</b>		
Annual remuneration	412,724	303,874
Travel and other allowances	113,732	213,383
Bonus	40,355	-
Backpay	5,723	-
	<b>572,534</b>	<b>517,257</b>
<b>Remuneration of the Director of Community services manager</b>		
Annual remuneration	342,287	303,874
Travel and other allowances	96,123	213,383
Bonus	33,017	-
Backpay	5,723	-
	<b>477,150</b>	<b>517,257</b>

# Nkandla Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>19. Employee related costs (continued)</b>		
<b>Remuneration of Technical services manager</b>		
Annual Remuneration	421,606	303,874
Travel and other allowances	104,850	213,383
Bonus	40,354	-
Backpay	5,723	-
Acting allowance	50,497	-
	<b>623,030</b>	<b>517,257</b>
<b>20. Remuneration of councillors</b>		
Mayor	263,970	241,987
Deputy Mayor	213,647	196,035
Speaker	213,647	196,035
Councillors	2,177,395	1,983,825
Executive committee members	604,803	554,014
Councillor's allowances	964,197	951,733
	<b>4,437,659</b>	<b>4,123,629</b>
<b>21. Debt impairment</b>		
Increase in provision for bad debts	67,151	475,968
<b>22. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	47,248	75,698
Interest on investments	491,571	379,315
	<b>538,819</b>	<b>455,013</b>
<b>23. Depreciation and amortisation</b>		
Property, plant and equipment	2,254,484	2,127,057
Intangible assets	6,316	2,822
	<b>2,260,800</b>	<b>2,129,879</b>
<b>24. Finance costs</b>		
Finance cost	318,182	289,256
The finance cost arises from the unwinding of the provision for landfill site.		
<b>25. Auditors' remuneration</b>		
Fees (refer note 27)	864,674	991,306

## Nkandla Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>26. Rental income of facilities and equipment</b>		
Premises		
Premises	273,805	215,328
<b>27. General expenses</b>		
Printing and stationery	70,269	232,443
Accommodation	185,057	136,581
Telephone	639,935	828,653
Audit fees	864,674	991,306
Other general expenses	10,048,117	7,906,997
	<b>11,808,052</b>	<b>10,095,980</b>
<b>28. Cash generated from operations</b>		
Surplus	7,211,651	6,498,989
<b>Adjustments for:</b>		
Depreciation and amortisation	2,260,800	2,129,879
Loss on sale of motor vehicle	40,660	-
Interest income	(538,819)	(455,013)
Finance costs	318,182	289,256
Movements in provisions	451,876	3,332,629
Adjustments for GRAP	-	98,467,425
Other non-cash items	6,020,024	(91,732,735)
<b>Changes in working capital:</b>		
Other receivables	-	521,680
Consumer debtors	(1,044,234)	(693,931)
Trade and other payables	2,579,970	262,750
VAT	(83,321)	1,484,956
	<b>17,216,789</b>	<b>20,105,885</b>

## Nkandla Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>29. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>The following projects were committed to at year-end:</b>		
Nkandla disaster centre	68,767	-
Indlageza access road	3,214,035	-
CBD Community Sidewalks	1,880,211	-
Kwa-Seyana Causeway	1,763,927	-
Upgrading of Cemetery	4,118,057	-
SMME Park Phase 2	1,556,857	-
CBD Roads & Stormwater	6,357,165	-
Mfongosi/Ngono Road	128,482	-
Nkandla Access Road	141,306	-
Vimbimbobo CSCS	91,360	-
Dlabe Road	96,339	-
Matshenezimpisi Road	191,897	-
Mahlayizeni/Matshenezimpisi Road	665,126	-
Nkandla Business Park	975,649	-
Nyawoshane CSC	54,914	-
	<b>21,304,092</b>	<b>-</b>

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

#### Operating leases – as lessee

##### Minimum lease payments due

- within one year	552,982	393,258
- in second to fifth year inclusive	528,489	517,220
	<b>1,081,471</b>	<b>910,478</b>

Operating leases consists of the following:

Operating lease payments represent rentals payable by the municipality for its printers, photocopiers, vehicles, tracker system and sanitiser system. Leases are negotiated for an average term of five years for printers, three years for the tracker and sanitiser systems and the lease period for motor vehicles are within the range of two to three years. Lease rentals for printers escalate from 12% to 15% or the increase in lease rentals is linked to the interest rate, over the lease periods. Contingent rentals are dependant on the prime interest rate.

#### Operating leases – as lessor

##### Minimum lease payments due

- within one year	265,991	296,770
- in second to fifth year inclusive	687,037	895,207
- later than five years	180,019	218,544
	<b>1,133,047</b>	<b>1,410,521</b>

Operating leases consists of the following:

Certain of the municipality's land and buildings is held to generate rental income. Rental of land and buildings is expected to generate rental yields of variable percentages (depending on the municipal tariff rates). Lease agreements have terms from 5 to 30 years.

#### 30. Contingencies

A forensic investigation was undertaken by KPMG during the current financial year. The outcome of the court case was determined after the financial year-end. The previous municipal manager (Mr ME Ngonyama), was charged on 6 counts. Five charges were as a result of irregular supply chain management proceedings that were carried out by Mr Ngonyama. He was found guilty on the five charges relating to supply chain management. The sixth charge was a result of an overpayment to SMT Holdings (Pty) Ltd by R718 000 of which he was not found guilty. He was subsequently dismissed.

## Nkandla Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2010

2010	2009
R	R

#### 31. Related parties

At the time of completion of the annual financial statements, there were no related party relationships in existence.

#### 32. Events after the reporting date

There are no events subsequent to the reporting date to report of as at the date of the annual financial statements.

#### 33. Unauthorised expenditure

At the time of completion of the annual financial statements, there were no unauthorised expenditure.

## Nkandla Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>34. Fruitless and wasteful expenditure</b>		
Discontinuation of Maphuthu electrification project	29,474	13,156
Penalties and interest in respect of PAYE	-	25,161
	<b>29,474</b>	<b>38,317</b>

#### **Maphuthu electrification project**

In the current financial year (2009/2010), an amount of R29,473.68 was incurred in respect of payment to contractors for the cost of designs and other studies for the Maphuthu electrification project. However, this project ceased (council decided to terminate this project). In the prior financial year an amount of R13,155.90 was incurred in respect of the above mentioned project. The cost of the project has resulted in fruitless and wasteful expenditure.

#### **Penalties and interest in respect of PAYE**

In the prior year the municipality incurred penalties and interest as a result of late payment in respect of PAYE to the value of R25 161.

#### **35. Irregular expenditure**

##### **Details of Irregular Expenditure – Current year**

During the financial year, the previous municipal manager (Mr ME Ngonyama) awarded a tender to Umnotho business consulting without following the proper supply chain management process. The value of the tender was R 207,250. Mr Ngonyama was subsequently charged with this offense through the disciplinary process and has been dismissed.

#### **36. In-kind donations and assistance**

##### **Municipal Support Program**

The Municipal support program is initiated by the Provincial Treasury to support and assist selected municipalities in improving their level of financial management and skills available to them through capacity building to ensure sustainability of municipality operations. The cost of the project is estimated to be R4,200,000, given to the municipality in kind.

#### **37. Risk management**

##### **Maximum credit risk exposure**

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end are noted under the respective Financial assets -Investments, Trade and other receivables and the Cash and cash equivalents notes.

These balances represent the maximum exposure to credit risk.

##### **Liquidity risk**

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The municipality's financial liabilities are all classified as current liabilities, payable within the next 12 months, other than the finance lease, the maturity of which is disclosed in the finance lease note.

##### **Interest rate risk**

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

## Nkandla Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010	2009
	R	R

#### 37. Risk management (continued)

At year end, financial instruments exposed to interest rate risk were as follows:

- Call deposits
- Notice deposits
- Long-term debtors

	Effect on profit before tax	
	2% increase	2% decrease
<b>2010</b>		
Financial assets - Investments	367,641	(367,641)
<b>2009</b>		
Financial assets - Investments	23,402	(23,402)



## Nkandla Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>38. Restatement of corresponding figures</b>		
The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from errors noted in 2009.		
The comparative amount has been restated as follows:		
<b>VAT receivable</b>		
Balance previously reported	-	1,946,027
Transferred to accumulated surplus/(deficit)	-	(1,560,127)
	-	<b>385,900</b>
<b>Consumer debtors</b>		
Balance previously reported	-	306,192
Transferred to Accumulated surplus/(deficit)	-	(142,998)
	-	<b>163,194</b>
<b>Unspent conditional grants and receipts</b>		
Balance previously reported	-	(6,115,044)
Transferred to Accumulated surplus/(deficit)	-	2,378,198
	-	<b>(3,736,846)</b>
<b>Property, plant and equipment</b>		
Balance previously reported	-	49,303,764
Transferred to Accumulated surplus/(deficit)	-	100,630,991
	-	<b>149,934,755</b>
<b>Cash and cash equivalents</b>		
Balance previously reported	-	347,457
Transferred to Accumulated surplus/(deficit)	-	69,320
	-	<b>416,777</b>
<b>Investment property</b>		
Balance as previously reported	-	-
Transferred to Accumulated surplus/(deficit)	-	18,000
	-	<b>18,000</b>
<b>Intangible assets</b>		
Balance as previously reported	-	-
Transferred to Accumulated surplus/(deficit)	-	6,162
	-	<b>6,162</b>
<b>Provision for landfill site</b>		
Balance as previously reported	-	-
Transferred to Accumulated surplus/(deficit)	-	(3,181,818)
	-	<b>(3,181,818)</b>
<b>Provision for leave pay</b>		
Balance as previously reported	-	(360,040)
Transferred to Accumulated surplus/(deficit)	-	(404,037)
	-	<b>(764,077)</b>
<b>Trade payables</b>		
Balance as previously reported	-	(444,536)

# Nkandla Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2010

	2010 R	2009 R
<b>38. Restatement of corresponding figures (continued)</b>		
Transferred to Accumulated surplus/(deficit)	-	277,717
	-	(166,819)
<b>Other payables</b>		
Balance as previously reported	-	(1,708,850)
Transferred to Accumulated surplus/(deficit)	-	376,017
	-	(1,332,833)
Net effect on accumulated surplus opening balance - credit balance	-	98,467,425
<b>Made up as follows:</b>		
Transfer of balance sheet items to Accumulated surplus	-	101,240,594
(Decrease) in revenue	-	(1,654,370)
(Decrease) in other income	-	(14,379)
(Decrease) in finance revenue	-	(223)
(Increase) in finance costs	-	(289,256)
(Increase) in operating expenses	-	(814,941)
	-	98,467,425

### 39. Councillor's arrear consumer accounts

The following Councillors had arrear accounts more outstanding for more than 90 days as at: - days	Total	Outstanding less than 90 days	Outstanding than 90
as at 30 June 2010			
Councillor: ML Mncube	1,567	270	1,298
During the year the following Councillors had arrear accounts outstanding for more than 90 days.		Highest Amount Outstanding	Ageing Days
as at 30 June 2010			
Councillor: ML Mncube		67	330

# Nkandla Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2010

### 40. Comparison of the budget and actual amounts

Description	Current Year 2009/10					Unauthorised expenditure	Variance	Actual outcome As a % of final Budget	Actual outcome As a % of Original Budget
	Original Budget	Adjusted Budget	Final Budget	Actual Outcome					
<b>R thousands</b>									
<b>Financial Performance</b>									
Property rates	330	792	792	1,261	-		(469)	157%	414%
Service charges	2,670	4,509	4,509	388	-		4,151	8%	13%
Investment revenue	90	441	441	539	-		(98)	122%	595%
Transfers recognised - conditional	29,451	29,451	29,451	36,057	-		(6,546)	123%	123%
Other own revenue	896	418	418	416	-		2	100%	52%
<b>Total Revenue (including capital transfers and contributions)</b>	<b>33,310</b>	<b>35,609</b>	<b>35,609</b>	<b>38,850</b>	-		<b>(3,041)</b>	<b>109%</b>	<b>116%</b>
Employee costs	12,897	14,475	14,475	11,211	-		3,264	77%	87%
Remuneration of councillors	3,854	3,854	3,854	4,638	-		(853)	115%	115%
Depreciation & asset impairment	3,087	3,087	3,087	2,261	-		826	73%	73%
Finance charges	-	-	-	318	-		(318)	100%	100%
Materials and bulk purchases	2,640	37	37	-	-		37	0%	0%
Transfers and grants	-	-	-	-	-		-	0%	0%
Other expenditure	10,792	10,016	10,016	12,534	-		(2,518)	128%	119%
<b>Total Expenditure</b>	<b>33,271</b>	<b>31,470</b>	<b>31,470</b>	<b>31,951</b>	-		<b>405</b>	<b>96%</b>	<b>93%</b>
<b>Surplus/(Deficit)</b>	<b>40</b>	<b>4,140</b>	<b>4,140</b>	<b>7,599</b>	-		<b>(3,449)</b>	<b>183%</b>	<b>19142%</b>
Transfers recognised - capital	12,873	12,873	12,873	-	-		12,873	0%	0%
Contributions recognised - capital & contributed assets	-	-	-	-	-		-	0%	0%
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>12,813</b>	<b>17,013</b>	<b>17,013</b>	<b>7,599</b>	-		<b>9,424</b>	<b>45%</b>	<b>59%</b>
Share of surplus/(deficit) of associate	-	-	-	-	-		-	0%	0%
<b>Surplus/(Deficit) for the year</b>	<b>12,813</b>	<b>17,013</b>	<b>17,013</b>	<b>7,599</b>	-		<b>9,424</b>	<b>45%</b>	<b>59%</b>
<b>Capital expenditure &amp; funds sources</b>									
Capital expenditure	12,881	12,881	12,881	5,504	-		7,377	43%	43%
Transfers recognised - capital	12,873	12,873	12,873	-	-		12,873	0%	0%
Public contributions & donations	-	-	-	-	-		-	0%	0%
Borrowing	-	-	-	-	-		-	0%	0%
Internally generated funds	-	-	-	-	-		-	0%	0%
<b>Total sources of capital funds</b>	<b>12,873</b>	<b>12,873</b>	<b>12,873</b>	<b>5,504</b>	-		<b>7,369</b>	<b>43%</b>	<b>43%</b>
<b>Cash flows</b>									
Net cash from (used) operating	8,422	12,522	12,522	17,437	-		(4,919)	139%	207%
Net cash from (used) investing	(12,881)	(12,881)	(12,881)	(10,952)	-		(2,219)	83%	63%
Net cash from (used) financing	-	-	-	-	-		-	0%	0%
<b>Cash/cash equivalents at the year end</b>	<b>(3,470)</b>	<b>630</b>	<b>630</b>	<b>6,716</b>	-		<b>(6,146)</b>	<b>101%</b>	<b>-195%</b>

**NKANOLA MUNICIPALITY**

	Cost / Revaluation				Accumulated Depreciation						Other movements	Carrying Value
	Opening Balance	Additions	Disposals	Transfers	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance		
	R'	R'	R'	R'	R'	R'	R'	R'	R'	R'	R'	R'
Infrastructure Assets												
Electrical Infrastructure												
Roads	12,826,736	4,946,095	-	-	17,791,632	920,206	474,283	-	-	1,394,546	2,306,481	18,703,766
	12,826,736	4,946,095	-	-	17,791,632	920,206	474,283	-	-	1,394,546	2,306,481	18,703,766
Land												
Land	104,025,940	-	-	(20,000)	104,005,940	-	-	-	-	-	-	104,005,940
Land fill site	2,892,992	-	-	-	2,892,992	180,785	180,785	-	-	361,570	-	2,530,992
	106,918,932	-	-	(20,000)	106,898,932	180,785	180,785	-	-	361,570	-	106,536,932
Buildings												
	4,329,275	-	-	-	4,329,275	672,649	144,339	-	-	816,959	4,664,400	7,576,717
	4,329,275	-	-	-	4,329,275	672,649	144,339	-	-	816,959	4,664,400	7,576,717
Community Assets												
Cemetery												
Hall	592,133	-	-	-	592,133	1,568	19,708	-	-	21,307	75,928	75,928
Community Centre	2,638,333	-	-	-	2,638,333	7,166	9,132	-	-	102,139	570,828	570,828
Club Buildings	4,752,665	-	-	-	4,752,665	477,277	158,163	-	-	635,440	5,169,130	5,169,130
Club Buildings	1,966,518	-	-	-	1,966,518	176,965	89,317	-	-	266,282	2,431,637	2,431,637
Library	830,823	975,649	-	-	1,806,472	184,010	27,694	-	-	221,704	609,119	1,746,216
Recreation gardens	2,301,597	-	-	-	2,301,597	820,873	78,328	-	-	899,119	-	609,119
Shells	1,441,370	-	-	-	1,441,370	914,700	29,634	-	-	944,027	-	2,287,613
Swimming Pool	1,490,432	-	-	-	1,490,432	177,883	48,046	-	-	225,909	-	2,265,909
Taxi Ranks	1,222,767	-	-	-	1,222,767	1,450,432	49,681	-	-	119,779	-	1,370,653
	1,222,767	-	-	-	1,222,767	112,940	40,759	-	-	153,699	-	1,069,068
	17,480,132	975,649	-	-	18,455,781	2,133,460	584,599	-	-	2,718,058	3,150,942	18,879,662
Grat carried forward	141,533,946	5,945,744	-	(20,000)	147,459,391	3,907,159	1,383,975	-	-	5,201,134	9,527,823	151,936,079

NKANDLA MUNICIPALITY  
APPENDIX A

	Cost / Revaluation				Accumulated Depreciation					Assets Under Construction	Other movements	Carrying Value
	Opening Balance	Additions	Disposals	Transfers	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss			
	R'	R'	R'	R'	R'	R'	R'	R'	R'	R'	R'	R'
<b>Total brought forward</b>	141,633,643	5,945,744	-	(20,000)	147,458,381	3,907,158	1,363,975	-	-	9,527,823	-	151,696,079
<b>Other Assets</b>												
Office equipment	111,485	3,874	-	-	115,359	81,105	15,034	-	-	76,140	-	39,219
Computer Equipment	1,686,288	171,921	-	-	1,858,217	872,704	413,371	-	-	1,286,076	-	482,141
Furniture & Fittings	1,331,424	935	-	-	1,332,259	721,989	167,762	-	-	888,731	-	442,528
Motor Vehicles	1,242,101	241,852	(165,000)	-	1,318,953	825,164	145,869	(4,340)	-	886,683	-	352,360
Peripherals	-	130,405	-	-	130,405	30	30	-	-	36	-	130,370
Plant & Machinery	1,875,270	-	-	-	1,875,270	828,649	132,784	-	-	991,434	-	773,836
	5,955,573	548,568	(165,000)	-	6,340,544	3,265,592	874,845	(4,340)	-	4,180,289	-	2,160,445
<b>Total</b>	147,490,222	6,494,712	(165,000)	(20,000)	153,799,935	7,216,751	2,258,822	(4,340)	-	9,527,823	-	153,656,524

**NKANDLA MUNICIPALITY**  
**APPENDIX A**  
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**  
30-Jun-09

	Cost / Revitalisation			Accumulated Depreciation				Impairment loss/Reversal of impairment loss	Closing Balance	Assets Under Construction	Other movements	Carrying Value
	Opening Balance R'	Additions R'	Disposals R'	Transfers R'	Closing Balance R'	Opening Balance R'	Depreciation R'	Disposals R'				
<b>Infrastructure Assets</b>												
Electrical Infrastructure												
Roads	11,394,395	1,431,381	-	-	12,825,796	505,503	414,763	-	920,268	3,202,536	-	15,108,096
	11,394,395	1,431,381	-	-	12,825,796	505,503	414,763	-	920,268	3,202,536	-	15,108,096
<b>Land</b>												
Land	104,043,940	-	-	(18,000)	104,025,940	-	-	-	-	-	-	104,025,940
Land fill site	2,692,562	-	-	-	2,692,562	180,785	-	-	180,785	-	-	2,711,777
	106,736,502	-	-	(18,000)	106,718,502	180,785	-	-	180,785	-	-	106,731,777
<b>Buildings</b>												
	4,329,275	-	-	-	4,329,275	528,340	144,309	-	672,649	2,907,996	-	6,954,021
	4,329,275	-	-	-	4,329,275	528,340	144,309	-	672,649	2,907,996	-	6,954,021
<b>Community Assets</b>												
Cemetery	-	-	-	-	-	-	-	-	-	-	-	-
Hall	-	592,133	-	-	592,133	-	1,598	-	1,598	-	-	590,564
Community Centre	-	2,838,633	-	-	2,838,633	-	7,510	-	7,510	2,229,117	-	5,060,231
Civic Buildings	4,752,465	-	-	-	4,752,465	319,361	158,416	-	477,777	649,380	-	4,924,068
Creche	1,989,518	-	-	-	1,989,518	110,668	66,317	-	176,985	-	-	1,912,533
Library	630,623	-	-	-	630,623	166,316	27,694	-	194,010	-	-	636,613
Recreation gardens	2,391,091	-	-	-	2,391,091	837,967	76,733	-	914,700	672,257	-	2,659,548
Stalls	1,441,370	-	-	-	1,441,370	128,817	48,046	-	177,863	-	-	1,263,507
Swimming Pool	1,490,462	-	-	-	1,490,462	20,417	40,081	-	70,498	-	-	1,420,354
Taxi Ranks	1,222,767	-	-	-	1,222,767	72,161	40,758	-	112,940	-	-	1,109,827
	14,030,365	3,430,766	-	-	17,461,132	1,665,737	476,732	-	2,133,469	3,550,753	-	19,877,426
	14,030,365	3,430,766	-	-	17,461,132	1,665,737	476,732	-	2,133,469	3,550,753	-	19,877,426
<b>Total carried forward</b>	136,686,500	4,862,147	-	(18,000)	141,533,945	2,690,570	1,216,568	-	3,407,159	8,661,785	-	147,287,770
	136,686,500	4,862,147	-	(18,000)	141,533,945	2,690,570	1,216,568	-	3,407,159	8,661,785	-	147,287,770

**APPENDIX A**  
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**  
30-Jun-03

	Cost / Revaluation			Accumulated Depreciation					Assets Under Construction			Carrying Value R
	Opening Balance R	Additions R	Disposals R	Transfers R	Closing Balance R	Opening Balance R	Depreciation R	Disposals R	Impairment loss/Reversal of impairment loss R	Closing Balance R	Other movements R	
<b>Total brought forward</b>	136,688,300	4,862,147	-	(18,000)	141,533,546	2,590,570	1,276,688	-	-	3,867,259	9,661,285	147,287,770
<b>Other Assets</b>												
Office Equipment	79,182	32,303	-	-	111,485	44,444	16,683	-	-	61,105	-	50,380
Computer Equipment	980,579	615,416	-	-	1,596,295	450,588	42,115	-	-	877,192	-	723,582
Furniture & Fixings	757,059	574,365	-	-	1,331,424	528,503	105,468	-	-	771,956	-	609,465
Motor Vehicles	1,077,101	165,000	-	-	1,242,101	681,704	143,460	-	-	825,164	-	416,897
Partitions	-	-	-	-	-	-	-	-	-	-	-	-
Plant & Machinery	1,631,118	44,152	-	-	1,675,270	805,685	132,784	-	-	828,849	-	846,821
	4,525,339	1,431,236	-	-	5,956,576	2,339,124	610,467	-	-	3,309,592	-	2,646,985
<b>Total</b>	141,214,839	6,293,382	-	(18,000)	147,490,221	5,939,694	2,127,056	-	-	7,216,751	9,661,285	149,934,755